



3410-01

DEPARTMENT OF AGRICULTURE

Office of the Secretary

Increasing Access to Rural Community Investment Opportunities for Investors

AGENCY: Office of the Secretary, USDA

ACTION: Notice

SUMMARY: This Notice applies to investors interested in investment opportunities in rural infrastructure; these potential investors are encouraged to contact the Department of Agriculture (USDA). The Rural Development Act of 1972 established USDA's authority to make loans and grants to rural communities. Currently, USDA manages a loan portfolio of approximately \$150 billion, of which \$5.3 billion is for community facilities. USDA seeks to partner with investors willing to create and implement investment structures that would improve rural communities' access to capital by expanding the leveraging of USDA's community facilities loan funds. Given current turbulent market conditions, these investments may be particularly attractive to the private sector as they have historically provided low-risk, steady cash flows. USDA is open to considering a variety of different investment structures.

DATES: Please provide your contact information on or before [INSERT DATE 30 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Please submit your contact information to: Doug O’Brien, Room 205W, U.S. Department of Agriculture, 1400 Independence Ave., SW., Washington, DC 20250; infrastructure.investments@osec.usda.gov.

FOR FURTHER INFORMATION: For further information on this notice, please contact: Daniel Burrows, Room 205W, U.S. Department of Agriculture, 1400 Independence Ave., SW., Washington, DC 20250; infrastructure.investments@osec.usda.gov.

SUPPLEMENTARY INFORMATION:

Purpose

This notice offers the opportunity for interested investors to partner with USDA in considering and implementing different investment structures that provide increased access to capital for rural communities. These structures could provide investors with greater access to a large and stable pool of investments in rural America.

USDA understands that investors have a responsibility to provide market rate returns for their investments, and these investment structures should be designed to be competitive as part of a larger “positive value driven” portfolio.

USDA is open to considering a variety of different investment structures. For example, investors could provide financing in projects with USDA at a project level or instead pool capital from different investors to create a dedicated infrastructure investment fund to invest directly in more projects. By law, USDA must continue to invest directly at a project level, but the private investor structure can be more flexible

with debt and equity options, and driven by market interests. Investors would be at complete risk for any loss that results from their investment.

Background

USDA has a long and successful history of making loans to rural communities. USDA's Rural Development Community Facility Program manages a loan portfolio of approximately \$150 billion, of which \$5.3 billion is for community facilities. This program provides direct loans, guaranteed loans, and grants to rural communities to construct essential infrastructure such as schools, hospitals, and fire stations. This program creates jobs, increases the vibrancy of the rural economy, and enhances the quality of life in rural areas. Even in turbulent market conditions, these loans have generated steady returns, with very low default rates.

USDA's Community Facilities program has been oversubscribed for the last three Federal fiscal years. During fiscal year 2012, USDA will make \$1.3 billion of direct loans available to rural communities, an amount not likely to meet the demand from worthy projects. Currently, USDA has applications for over one billion dollars in rural communities, and it expects this backlog to increase during this fiscal year.

USDA direct loans for community facilities are currently at a 3.75 percent interest rate. A potential borrower could leverage this with another loan at a slightly higher market rate, and the blended rate could still be attractive to them.

Thus, with the confluence of the backlog in projects and low lending rates, this is an opportune time to make funds available to these projects.

The Agency employs a well-developed methodology of due diligence in awarding loans for Community Facility projects. This methodology includes a comprehensive look at past performance and future projections, including management, revenue security, future demand forecasts, retirement profiles, and historical financials. The Agency also makes an assessment of the broad-based community support for the facility as demonstrated by a variety of factors, including previous fundraising efforts. As a result, the Community Facility loan portfolio has historically performed extraordinarily well. However, investors would be at complete risk for any loss that results from their investment. Also, the Agency would need to have at least a parity position with respect to the security, such that in the event of a default, each lender would be affected on a proportionate basis.

Thus, if the deal flow is there, our question to the private sector is whether there is also a demand for low-risk, long-term investments in rural America with stable cash flows.

With this Notice, USDA seeks to obtain a list of investors, as described below, who are interested in pursuing the creation and implementation of investment structures designed to facilitate and increase rural America's access to capital. USDA will contact each respondent to discuss specific items associated with the creation and implementation of such investment structures. Items that will be discussed will include, but are not necessarily limited to investor desires for:

- Debt or equity,
- Loan term,
- Interest rates,

- Lien positions,
- Collateral,
- Delinquency actions,
- Diversification, and
- Due diligence procedures.

Once we have made these contacts with each interested investor, USDA will hold one or more meetings, as necessary. It is expected that these meetings will occur over a one- to-two month period.

USDA believes that, in order for this effort to be successful, each participating investor:

- Should be a well-established investor, including, but not limited to, entities such as pension funds, commercial banking institutions, insurance investment funds, foundational endowments, or family offices;
- Interested in investing in low risk, rural infrastructure as part of a larger portfolio;
- Willing to commit funds for the long term (e.g., 20+ years); and
- Interested in participating in a limited number of interviews and panels as we shape this initiative with USDA.

Interested Entities

If you are interested in the formation of, and participation in, this effort for increasing access to capital for community facility projects in rural America, please provide the following information to Doug O'Brien, as specified in the **ADDRESSES**

section of this Notice, on or before [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]:

- Name of Institution,
- Headquarters Mailing Address,
- Contact Name and Title,
- Contact Mailing Address,
- Contact Telephone Number(s), and
- Contact Email Address.

Thomas J. Vilsack
Secretary

[FR Doc. 2011-33111 Filed 12/23/2011 at 8:45 am; Publication Date: 12/27/2011]